Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to assist in the understanding and assessing the trends and significant changes in our results of operations and financial condition. Historical results may not be indicative of future performance. This discussion includes forward-looking statements that reflect our plans, estimates and beliefs. Such statements involve risks and uncertainties. Our actual results may differ materially from those contemplated by these forward-looking statements as a result of various factors, including those set forth in "Risk Factors" in Part I, Item 1A of the Annual Report on Form 10-K for the year ended December 31, 2023 (the "2023 Form 10-K"), and "Cautionary Statement Regarding Forward-Looking Statements" set forth below.

This MD&A should be read in conjunction with the Company's unaudited condensed consolidated financial statements and for the three month period ended March 31, 2024 and related notes appearing elsewhere in this Quarterly Report on Form 10-Q (this "Quarterly Report" or "Form 10-Q) and the 2023 Form 10-K. Financial information presented in this MD&A is presented in thousands of U.S. dollars, unless otherwise indicated.

Cautionary Statement Regarding Forward Looking-Statements

This Quarterly Report of the Company contains statements that include forward-looking information and are forward-looking statements within the meaning of applicable Canadian and United States securities legislation ("forward-looking statements"), including the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. All statements, other than statements of historical fact, included herein are forward-looking statements, including, for greater certainty, statements regarding the proposed transactions with Canopy Growth Corporation ("Canopy Growth or "Canopy"), including the anticipated benefits and likelihood of completion thereof.

Generally, forward-looking statements may be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "proposed", "is expected", "budgets", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases, or by the use of words or phrases which state that certain actions, events or results may, could, would, or might occur or be achieved. There can be no assurance that such forward-looking statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such forward-looking statements. Forward-looking statements reflect Acreage's current beliefs and are based on information currently available to Acreage and on assumptions Acreage believes are reasonable. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Acreage to be materially different from those expressed or implied by such forward-looking statements. Such risks and other factors may include, but are not limited to:

- The U.S. Federal illegality of the Company's business activities
- the anticipated benefits of the Floating Share Arrangement with Canopy Growth;
- the likelihood of Canopy Growth completing the acquisition of the Fixed Shares and/or Floating Shares;
- risks related to the ability to finance Acreage's business and fund its obligations;
- other expectations and assumptions concerning the transactions contemplated between Canopy Growth and Acreage;
- in the event that the Floating Share Arrangement is completed, the likelihood of Canopy completing the Acquisition in accordance with the Existing Arrangement Agreement;
- the risk of a change of control of either Canopy or Canopy USA;
- the impact of material non-recurring expenses in connection with the Floating Share Arrangement on Acreage's future results of operations, cash flows and financial condition;
- the ability of Canopy, Canopy USA and Acreage to leverage each other's respective capabilities and resources;
- the available funds of Acreage and the anticipated use of such funds;
- the availability of financing opportunities for Acreage and the risks associated with the completion thereof;
- regulatory and licensing risks;
- changes in general economic, business and political conditions, including changes in the financial and stock markets;
- legal and regulatory risks inherent in the cannabis industry;
- risks associated with economic conditions, dependence on management and currency risk;
- risks relating to U.S. regulatory landscape and enforcement related to cannabis, including political risks;
- risks relating to anti-money laundering laws and regulation;
- other governmental and environmental regulation;
- public opinion and perception of the cannabis industry;
- risks related to contracts with third-party service providers;
- risks related to the enforceability of contracts and lack of access to U.S. bankruptcy protections;
- reliance on the expertise and judgment of senior management of Acreage;
- risks related to proprietary intellectual property and potential infringement by third parties;
- the concentrated voting control of Acreage's founder and the unpredictability caused by Acreage's capital structure;

- the dual structure of the Fixed and Floating Shares
- risks relating to the management of growth;
- increasing competition in the industry;
- risks inherent in an agricultural business;
- risks relating to energy costs;
- risks associated with cannabis products manufactured for human consumption including potential product recalls;
- reliance on key inputs, suppliers and skilled labor;
- cybersecurity risks;
- ability and constraints on marketing products;
- fraudulent activity by employees, contractors and consultants;
- tax and insurance related risks;
- risks related to the economy generally;
- risk of litigation;
- conflicts of interest;
- risks relating to certain remedies being limited and the difficulty of enforcement judgments and effecting service outside of Canada;
- risks related to future acquisitions or dispositions;
- sales by existing shareholders; and
- limited research and data relating to cannabis.

A description of additional assumptions used to develop such forward-looking statements and a description of additional risk factors that may cause actual results to differ materially from forward-looking statements can be found in Part I, Item 1A of the Company's Annual Report on Form 10-K, under the heading "Risk Factors", dated April 30, 2024, as filed with the Securities and Exchange Commission. Although Acreage has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Readers are cautioned that the foregoing list of factors is not exhaustive. Readers are further cautioned not to place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions or expectations upon which they are placed will occur. Forward-looking statements contained in this Form 10-Q are expressly qualified by this cautionary statement. The forward-looking statements contained in this Form 10-Q represent the expectations of Acreage as of the date of this Form 10-Q and, accordingly, are subject to change after such date. However, Acreage expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities law.

Management's discussion and analysis of financial condition and results of operations is intended to help provide an understanding of the Company's financial condition, changes in financial condition and results of operations. This discussion is organized as follows:

- Overview—This section provides a general description of the Company's businesses, its strategic objectives, as well as developments that occurred during the three months ended March 31, 2024 and 2023 that the Company believes are important in understanding its results of operations and financial condition or to disclose known trends.

- Results of Operations—This section provides an analysis of the Company's results of operations for the three months ended March 31, 2024 and 2023. This analysis is presented on a consolidated basis. In addition, a brief description is provided of significant transactions and events that impact the comparability of the results being analyzed.

- Liquidity and Capital Resources—This section provides an analysis of the Company's cash flows for the three months ended March 31, 2024 and 2023, as well as a discussion on the Company's outstanding debt and commitments that existed as of March 31, 2024. Included in the discussion of outstanding debt is a discussion of the amount of financial capacity available to fund the Company's future commitments and obligations, as well as a discussion of other financing arrangements.

Overview

Acreage Holdings, Inc. ("Acreage" or the "Company"), a vertically integrated, multi-state operator of cannabis licenses and assets in the U.S, was continued into the Province of British Columbia under the *Business Corporations Act* (British Columbia). Acreage Fixed Shares and Floating Shares (as such terms are defined at Note 13 of the unaudited condensed consolidated financial statements) are each listed on the Canadian Securities Exchange under the symbols "ACRG.A.U" and "ACRG.B.U", respectively, and are quoted on the OTCQX® Best Market by OTC Markets Group under the symbols "ACRHF" and "ACRDF", respectively and on the Open Market of the Frankfurt Stock Exchange under the symbols "0VZ1" and "0VZ2", respectively. Acreage operates through its consolidated subsidiary High Street Capital Partners, LLC ("HSCP"), a Delaware limited liability company. HSCP, which does business as "Acreage Holdings", was formed on April 29, 2014. The Company became an indirect parent of HSCP on November 14, 2018 in connection with a reverse takeover ("RTO") transaction. The Company's operations include (i) cultivating cannabis plants, (ii) manufacturing branded consumer products, (iii) distributing cannabis flower and manufactured products, and (iv) retailing high-quality, effective cannabis products to consumers. The Company appeals to medical and adult-use customers through brand strategies intended to build trust and loyalty.

As of March 31, 2024, Acreage owned and operated a total of twenty-three dispensaries - five in Ohio, four in Maine, four in New York, three in New Jersey, three in Connecticut, two in Massachusetts, and two in Illinois. As of March 31, 2024, Acreage owned and operated a total of eight cultivation and processing facilities, one each in Illinois, Maine, New Jersey, New York, Ohio and Pennsylvania, respectively, and two in Massachusetts.

Strategic Priorities

The Company believes its focused strategy is the key to continued improvements in its financial results and shareholder value. For the past few years, the Company was focused on three key strategic objectives - accelerating growth in its core markets, driving profitability, and strengthening the balance sheet. For 2023 and onwards, the Company has modified its strategic objectives in response to Company and industry developments - focus on cash, accelerate growth in core markets with core brands and prepare for Canopy USA.

Focus on Cash: A combination of economic conditions, lack of regulatory change and industry competition impacting pricing have negatively impacted the Company's ability to generate cash flow to support operational requirements and capital activities. Additionally, these factors have likely limited the additional capital that might be available to the Company. While these factors continue, the Company will focus on maximizing the cash flow generated by operating activities and limit capital expenditures to only those projects that can be funded from existing resources and are expected to generate near-term returns.

Accelerating Growth in Core Markets with Core Brands: Through prior acquisitions and capital expenditures, management believes Acreage is well positioned for future success in several key markets as regulations regarding the use of cannabis continue to evolve. The Company will continue to focus its growth in its core markets where it can take advantage of and expand on the presence already established. Additionally, the Company has developed a portfolio of core brands that resonate with its customers. The Company will focus on ensuring that these core brands feature prominently in the markets where they are available.

Prepare for Canopy USA: During the fourth quarter of 2022, the Company entered into a new strategic arrangement with Canopy Growth that would allow Canopy Growth to acquire 100% of Acreage by (i) waiving its existing Floating Share option and entering into a new Floating Share arrangement agreement dated October 24, 2022 (the "Floating Share Arrangement Agreement"); and (ii) committing to exercise its Fixed Share option, all subject to required approvals and terms of the related agreements. Throughout 2023, the Company has taken steps necessary to prepare for the eventual closing of these transactions, including holding a special meeting of its holders of Floating Shares to authorize and approve the plan of arrangement (the "Floating Share Arrangement") in accordance with the terms of the Floating Share Arrangement Agreement on March 15, 2023 (the "Special Meeting"). The transaction continues to progress and Canopy recently scheduled a special meeting of its shareholders for April 12, 2024 to approve a reorganization of its corporate structure in order to facilitate the closing of the Floating Share Arrangement and Acquisition.

Highlights from the three months ended March 31, 2024:

- Adjusted EBITDA for the three months ended March 31, 2024 was $2.0 million, compared to adjusted EBITDA of $10.6 million during the same period in 2023. This marks thirteen consecutive quarters of positive adjusted EBITDA, further validating management's refocused strategic plan. Refer to section "Non-GAAP Information" for a discussion of Adjusted EBITDA as a non-GAAP measure.
- On January 3, 2024, the Company entered the New York adult-use market with its first wholesale product sale.

- On January 25, 2024, the Company relocated a Connecticut dispensary to Vernon Connecticut, marking the first-ever cannabis dispensary in the borough of over 30,000 residents.
- On March 11, 2024, the Company launched adult-use sales at its Vernon, Connecticut Dispensary. The Botanist Vernon is now operating as a hybrid dispensary, providing its full suite of products to both medical patients and adult-use customers.

Operational and Regulation Overview (all amounts in thousands, except per share amounts)

The Company believes its operations are in material compliance with all applicable state and local laws, regulations and licensing requirements in the states in which it operates. However, cannabis is illegal under U.S. federal law. Substantially all of the Company's revenue is derived from U.S. cannabis operations. For information about risks related to U.S. cannabis operations, please refer to Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

Results of Operations

The following table presents selected financial data derived from the unaudited condensed consolidated financial statements of the Company for the three months ended March 31, 2024 and 2023. The selected financial information set out below may not be indicative of the Company's future performance.

Summary Results of Operations

in thousands, except per share amounts	**Three Months Ended March 31,**		**Better/(Worse) 2024 vs. 2023**	
	2024	2023	$	%
Revenues, net	$ 45,301	$ 55,963	$ (10,662)	(19)%
Net operating income (loss)	(23,182)	1,145	(24,327)	n/m
Net loss attributable to Acreage	(27,978)	(14,590)	(13,388)	(92)
Basic and diluted loss per share attributable to Acreage	$ (0.24)	$ (0.13)	$ (0.11)	(85)%

n/m - Not Meaningful

Revenues, Cost of goods sold and Gross profit

The Company derives its revenues from sales of cannabis and cannabis-infused products through retail dispensary, wholesale and manufacturing and cultivation businesses, as well as from management or consulting fees from entities for whom the Company provides management or consulting services.

Gross profit is revenue less cost of goods sold. Cost of goods sold includes costs directly attributable to inventory sold such as direct material, labor, and overhead, including depreciation. Such costs are further affected by various state regulations that limit the sourcing and procurement of cannabis and cannabis-related products, which may create fluctuations in gross profit over comparative periods as the regulatory environment changes.

in thousands	**Three Months Ended March 31,**		**Better/(Worse) 2024 vs. 2023**	
	2024	**2023**	**$**	**%**
Retail revenue, net	$ 31,811	$ 41,881	$ (10,070)	(24)%
Wholesale revenue, net	13,490	13,998	(508)	(4)
Other revenue, net	—	84	(84)	n/m
Total revenues, net	$ 45,301	$ 55,963	$ (10,662)	(19)%
Cost of goods sold, retail	(17,942)	(20,414)	2,472	12
Cost of goods sold, wholesale	(28,856)	(8,964)	(19,892)	(222)
Total cost of goods sold	$ (46,798)	$ (29,378)	$ (17,420)	(59)%
Gross profit (loss)	$ (1,497)	$ 26,585	$ (28,082)	n/m
Gross margin	(3)%	48 %		(51)%

n/m - Not Meaningful

Three months ended March 31, 2024 vs. 2023

Total revenues for the three months ended March 31, 2024 declined by $10,662, or 19%, compared to the three months ended March 31, 2023. The decline in total revenue was primarily due to continued competitive pressure across most of the Company's markets and was somewhat offset by revenue growth in Connecticut after commencement of adult use sales.

Retail revenue for the three months ended March 31, 2024 decreased by $10,070, or 24%, compared to the three months ended March 31, 2023. This decline was primarily driven by increased retail competition and pricing pressures in key markets.

Wholesale revenue for the three months ended March 31, 2024 decreased by $508, or 4%, compared to the three months ended March 31, 2023. The decline in wholesale revenue was primarily due to price compression and decreased wholesale demand in key markets, particularly in those markets where integrated operators put a greater focus on the sales of their own internally produced products.

Retail cost of goods sold decreased $2,472, or 12%, for the three months ended March 31, 2024 compared to 2023. This decrease was driven by lower volumes and cost efficiencies.

Wholesale cost of goods sold increased $19,892, or 222%, for the three months ended March 31, 2024 compared to 2023. The growth in wholesale cost of goods sold contrasted with a 4% decrease in wholesale revenue. Wholesale cost of goods sold increased due to i) a change in accounting estimate for the costing of inventory which resulted in a $13,828 charge to *Cost of goods sold, wholesale* (Refer to Note 2 for further discussion) and ii) inflation driven cost increases and product mix shifts, which were greater than the cost reductions associated with lower volumes.

Gross profit (loss) decreased $28,082 for the three months ended March 31, 2024 to $(1,497) from $26,585 in 2023, and Gross margin decreased from 48% of revenue for the three months ended March 31, 2023 to (3)% of revenue in 2024, or 51%, due to the factors discussed above. Efficiencies gained from further economies of scale were unable to offset overall selling price declines, and cost increases due to inflation.

<u>Total operating expenses</u>

Total operating expenses consist primarily of recurring general and administrative expenses, compensation expenses, professional fees, which includes, but is not limited to, legal and accounting services, and one-time expenses.such as loss on impairments.

Operating expenses			**Better/(Worse)**	
in thousands	**Three Months Ended March 31,**		**2024 vs. 2023**	
	2024	2023	$	%
General and administrative	$ 7,225	$ 10,512	$ 3,287	31 %
Compensation expense	12,118	12,203	85	1
Equity-based compensation expense	809	984	175	18
Marketing	559	744	185	25
Impairments, net	118	—	(118)	n/m
Depreciation and amortization	856	997	141	14
Total operating expenses	$ 21,685	$ 25,440	$ 3,755	15 %
n/m - Not Meaningful				

Three months ended March 31, 2024 vs. 2023

Total operating expenses for the three months ended March 31, 2024 were $21,685, an decrease of $3,755, or 15%, compared with 2023. The primary drivers of the increase in operating expenses were as follows:

- General and administrative expenses decreased $3,287 during the three months ended March 31, 2024 compared with 2023, primarily due to initiatives put in place by management to reduce operating costs across the Company.
- Compensation expense decreased $85 during the three months ended March 31, 2024 as compared with 2023, primarily due to staffing reductions.
- Equity-based compensation expense decreased $175 during the three months ended March 31, 2024 as compared with 2023, primarily due to staffing reductions and changes made to the Company's long-term incentive compensation plans.

Total other income (loss)

Other loss				
in thousands	**Three Months Ended March 31,**		**Better/(Worse) 2024 vs. 2023**	
	2024	2023	$	%
Loss from investments, net	$ —	$ (342)	$ 342	n/m
Interest income from loans receivable	—	16	(16)	n/m
Interest expense	(8,859)	(8,074)	(785)	(10)%
Other loss, net	(155)	(1,553)	1,398	90
Total other loss	$ (9,014)	$ (9,953)	$ 939	9 %
n/m - Not Meaningful				

Three months ended March 31, 2024 vs. 2023

Total other loss for the three months ended March 31, 2024 was $9,014, a decrease of $939 compared with 2023. The primary drivers of the decrease in Total other loss were as follows:

- Interest expense for the three months ended March 31, 2024 of $8,859 increased by $785 as a result of the Company having a larger debt balance as compared to 2023 and due to an increased interest rate on a substantial portion of the Company's debt.
- Other loss for the three months ended March 31, 2024 of $155 decreased by $1,398 as compared with 2023. Other income, net for the year ended March 31, 2023 was primarily due to a loss on the termination of a lease related the Company's operations in Massachusetts.

Net loss

Net loss				
in thousands	**Three Months Ended March 31,**		**Better/(Worse) 2024 vs. 2023**	
	2024	2023	$	%
Net loss	$ (33,319)	$ (16,157)	$ (17,162)	(106)%
Less: net loss attributable to non-controlling interests	(5,341)	(1,567)	(3,774)	(241)
Net loss attributable to Acreage Holdings, Inc.	$ (27,978)	$ (14,590)	$ (13,388)	(92)%

The changes in net loss are driven by the factors discussed above.

Non-GAAP Information

This statement includes Adjusted EBITDA, which is a non-GAAP performance measure that we use to supplement our results presented in accordance with U.S. GAAP. The Company uses Adjusted EBITDA to evaluate its actual operating performance and for planning and forecasting future periods. The Company believes that the adjusted results presented provide relevant and useful information for investors because they clarify the Company's actual operating performance, make it easier to compare our results with those of other companies and allow investors to review performance in the same way as our management. Since these measures are not calculated in accordance with U.S. GAAP, they should not be considered in isolation of, or as a substitute for, net loss or our other reported results of operations as reported under U.S. GAAP as indicators of our performance, and they may not be comparable to similarly named measures from other companies.

The Company defines Adjusted EBITDA as net income before interest, income taxes and, depreciation and amortization and excluding the following: (i) income from investments, net (the majority of the Company's investment income relates to remeasurement to net asset value of previously-held interests in connection with our roll-up of affiliates, and the Company expects income from investments to be a non-recurring item as its legacy investment holdings diminish), (ii) equity-based compensation expense, (iii) non-cash impairment losses, (iv) transaction costs, (v) non-cash inventory adjustments and (vi) other non-recurring expenses (other expenses and income not expected to recur).

Adjusted EBITDA					**Better/(Worse)**	
in thousands	**Three Months Ended March 31,**				**2024 vs. 2023**	
	2024		2023		$	%
Net loss (U.S. GAAP)	**$**	**(33,319)**	**$**	**(16,157)**		
Income tax expense		1,123		7,349		
Interest expense, net		8,859		8,058		
Depreciation and amortization[(1)]		6,836		3,038		
EBITDA (non-GAAP)	**$**	**(16,501)**	**$**	**2,288**	**$ (18,789)**	**(821)%**
Adjusting items:						
Loss (income) from investments, net		—		342		
Impairments, net		118		—		
Non-cash inventory adjustments		1,924		2,237		
Loss on extraordinary events[(2)]		154		1,492		
Equity-based compensation expense		809		984		
Other non-recurring expenses[(3)]		15,475		3,250		
Adjusted EBITDA (non-GAAP)	**$**	**1,979**	**$**	**10,593**	**$ (8,614)**	**(81)%**

(1) Depreciation and amortization for the three months ended March 31, 2024 and 2023 contains depreciation and amortization included in cost of goods sold.
(2) Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence.
(3) Other non-recurring income and expenses relates to i) certain compensation, ii) general and administrative, iii) other miscellaneous income and expenses, and iv) a change in accounting estimate for the costing of inventory, which resulted in a $13,828 charge to *Cost of goods sold, wholesale,* refer to note 2 for further discussion. The Company excludes these items as they are not expected to recur.

The changes in adjusted EBITDA are driven by the factors discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Sources and uses of cash (all amounts in thousands, except per share amounts)

The Company's primary uses of capital include operating expenses, income taxes, capital expenditures and the servicing of outstanding debt. The Company's primary sources of capital include funds generated by cannabis sales as well as financing activities. Through March 31, 2024, the Company had primarily used private financing as a source of liquidity for short-term working capital needs and general corporate purposes.

As of March 31, 2024, the Company had cash of $9,844, including $7,342 of cash and cash equivalents and $2,502 of restricted cash, respectively, on the Consolidated Statements of Financial Position. The Company's ability to fund its operations, capital expenditures, acquisitions, and other obligations depends on its future operating performance and ability to obtain financing, which are subject to prevailing economic conditions, as well as financial, business and other factors, some of which are beyond the Company's control.

The Company's future contractual obligations include the following:

Leases

As of March 31, 2024, the Company had future operating lease obligations and future finance lease obligations of $26,455 and $15,306, respectively, with $2,779 and $693 payable within the next nine months, respectively. The Company leases land, buildings, equipment and other capital assets which it plans to use for corporate purposes in addition to the production and sale of cannabis products. Leases with an initial term of 12 months or less are not recorded on the Unaudited Condensed Consolidated Statements of Financial Position and are expensed in the Unaudited Condensed Consolidated Statements of Operations on the straight-line basis over the lease term. The Company does not have any material variable lease payments, and accounts for non-lease components separately from leases. Refer to Note 8 of the Unaudited Condensed Consolidated Financial Statements for further discussion.

Debt

As of March 31, 2024, the Company had outstanding debt with varying maturities for an aggregate principal amount of $237,943 (net of $15,465 of unamortized discounts and debt issuance costs), with $143,225 payable within the remaining nine months. The Company has related future interest payments of $55,370, with $14,593 payable within the remaining nine months. In April 2023, the Company reached an agreement with its lenders that would allow it to draw a further $15,000 under its current credit agreement, with such funds being restricted for use to only eligible capital expenditures. As part of this agreement, the Company agreed to limit the total amounts outstanding under the Credit Agreement from $150,000 to $140,000. Refer to Notes 10 and 17 of the Unaudited Condensed Consolidated Financial Statements for further discussion.

The Company expects that its cash and cash equivalents of $7,342 as of March 31, 2024, and other mitigating factors, will be adequate to support the future obligations discussed above as well as the capital needs of the existing operations and expansion plans over the next twelve months. Refer to Note 2 of the Unaudited Condensed Consolidated Financial Statements for further discussion.

Going Concern

As reflected in the unaudited condensed consolidated financial statements, the Company had an accumulated deficit as of March 31, 2024, as well as a net loss and negative cash flow from operating activities for the three months ended March 31, 2024. Additionally, during the quarter the Company was in default of the Prime rate credit facilities due January 2026, as amended. Refer to Note 10 for further discussion. These factors raise substantial doubt about the Company's ability to continue as a going concern for at least one year from the issuance of these financial statements. Continuation as a going concern is dependent upon continued operations of the Company, which is dependent upon the Company's ability to meet its financial requirements and the success of its future operations. The consolidated financial statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary should the Company not continue as a going concern.

Management believes that substantial doubt about the Company's ability to meet its obligations for the next twelve months from the date these financial statements are issued can be mitigated by, but not limited to, (i) expected long-term sales growth from the Company's consolidated operations, (ii) latitude as to the timing and amount of certain operating expenses as well as capital expenditures, (iii) expense reduction plans that have already been put in place to improve the Company's results, (iv) access to the U.S. and Canadian public equity markets. However, management cannot provide any assurances that the Company will be successful in accomplishing any of its plans. Management also cannot provide any assurance as to unforeseen circumstances that could occur at any time within the next twelve months or thereafter which could increase the Company's need to raise additional capital on an immediate basis.

Cash flows

Cash and cash equivalents were $9,844 as of March 31, 2024, which represents a net decrease of $7,771 for the three months ended March 31, 2024. The following table details the change in cash, cash equivalents, restricted cash and cash related to assets held for sale for the three months ended March 31, 2024 and 2023.

Cash flows			Better/(Worse)	
in thousands	**Three Months Ended March 31,**		**2024 vs. 2023**	
	2024	2023	$	%
Net cash used in operating activities	$ (3,806)	$ (8,070)	$ 4,264	53 %
Net cash used in investing activities	(3,111)	(1,714)	(1,397)	(82)
Net cash used in financing activities	(854)	(32)	(822)	n/m
Net decrease in cash, cash equivalents, restricted cash, and cash held for sale	$ (7,771)	$ (9,816)	$ 2,045	21 %

n/m - Not Meaningful

<u>Net cash used in operating activities</u>

During the three months ended March 31, 2024, the Company used $3,806 of net cash in operating activities, which represented an improvement of $4,264, or 53%, when compared with 2023. This improvement was driven by i) non-cash inventory write-offs and provisions of $13,588, ii) cash related changes to inventory of $10,144, and was offset by iii) changes to the company's taxes payable profile of ($5,671).

Net cash used in investing activities

During the three months ended March 31, 2024, the Company used $3,111 of net cash through investing activities compared to $1,714 of net cash used in investing activities in the same period for 2022, which represented a change of $1,397. Net cash used in investing activities for the three months ended March 31, 2024 included $2,611 on the purchase of capital assets, $500 on the purchase of intangibles which was partially offset by cash acquired through business acquisitions of $516 related to March 31, 2023.

Net cash used in financing activities

During the three months ended March 31, 2024, the Company used $854 of net cash through financing activities compared to $32 of net cash used in financing activities in the same period for 2023, which represented a change of $822 and was driven by an increase in debt repayments for the three months ended March 31, 2024.

Capital Resources

Capital structure and debt

Our debt outstanding as of March 31, 2024 and December 31, 2023 is as follows:

Debt balances		**March 31, 2024**		**December 31, 2023**
Financing liability (failed sale-leaseback)	$	15,253	$	15,253
Finance lease liabilities		5,923		5,943
7.50% Loan due April 2026		33,186		32,438
6.10% Secured debenture due September 2030		47,067		46,955
Note due December 2024		1,583		2,375
Prime rate credit facilities due January 2026, as amended		133,290		132,337
Note backed by ERTC		1,641		1,641
Total debt	**$**	**237,943**	**$**	**236,942**
Less: current portion of debt		136,637		4,132
Total long-term debt	**$**	**101,306**	**$**	**232,810**

Commitments and contingencies

Commitments

The Company provides revolving lines of credit to certain of its portfolio companies. As of March 31, 2024, only one revolving line of credit remained outstanding and the maximum obligation under this arrangement was equal to the balance advanced. Refer to Note 6 of the Unaudited Condensed Consolidated Financial Statements for further discussion.

Arrangement with Canopy Growth

On June 19, 2019, the shareholders of the Company and of Canopy Growth separately approved the Prior Plan of Arrangement involving the two companies, which was subsequently amended on September 23, 2020.

During the fourth quarter of 2022, the Company entered into a new strategic arrangement with Canopy Growth that, would allow Canopy Growth to acquire 100% of Acreage by (i) waiving its existing Floating Share option and entering into a new Floating Share acquisition agreement; and (ii) committing to exercise its Fixed Share option, all subject to required approvals and terms of the related agreements.

Refer to Note 13 of the Unaudited Condensed Consolidated Financial Statements for further discussion.

Advisor fee

In connection with the Prior Plan of Arrangement, the Company entered into an agreement with its financial advisor providing for a fee payment of $7,000 in either cash, Acreage shares or Canopy Growth shares, at the discretion of the Company, upon the successful acquisition of Acreage by Canopy Growth. During the fourth quarter of 2022, the Company amended the terms of the agreement with its financial advisors providing for a fee payment of $3,000 in cash, less a $500 initial payment, and $2,000 in shares of the Company, upon the successful acquisition of Acreage by Canopy Growth.

Tax Receivable Agreement

The Company is a party to (i) a tax receivable agreement dated November 14, 2018 and subsequently amended (the "Tax Receivable Agreement") between the Company, certain current and former unit holders of HSCP and, Canopy Growth and Canopy USA and (ii) tax receivable bonus plans dated November 14, 2018 and subsequently amended (the "Tax Receivable Bonus Plans") between the Company and certain directors, officers, consultants of the Company, Canopy Growth and Canopy USA (together the "Tax Receivable Recipients"). Under the Tax Receivable Agreement and the Tax Receivable Bonus Plans, the Company is required to make cash payments to the Tax Receivable Recipients equal to 85% of the tax benefits, if any, that the Company actually realizes, or in certain circumstances is deemed to realize, as a result of (i) the increases in its share of the tax basis of assets of HSCP resulting from any redemptions or exchanges of Units from the HSCP Members, and (ii) certain other tax benefits related to the Company making payments under the Tax Receivable Agreement and the Tax Receivable Bonus Plan.

Concurrently with the execution of the Floating Share Agreement, Canopy, Canopy USA, High Street, USCo and certain individuals party to the Tax Receivable Agreement, amended the Tax Receivable Agreement. Pursuant to the Floating Share Agreement, Canopy, on behalf of Canopy USA agreed to: (i) issue Canopy Shares with a value of approximately $30.5 million due to the participants of a tax receivable agreement (the "Tax Receivable Agreement Members") in exchange for each such individual executing an assignment of rights agreement assigning such individual's rights under the Tax Receivable Agreement to Canopy USA, such that following assignment, Canopy USA is the sole member and beneficiary under the TRA; and (ii) fund a payment with a value of approximately $19.5 million to be made by the Company in Canopy Shares to certain eligible participants pursuant to the Bonus Plans, as amended on October 24, 2022, both in order to reduce a potential liability of approximately $121 million under the Tax Receivable Agreement and the Bonus Plans. In connection with the foregoing, Canopy, on behalf of Canopy USA, issued: (i) 5,648,927 Canopy Shares (equivalent to 564,893 Canopy Shares on a post-Canopy Consolidation basis) with a value of $15.2 million to certain Tax Receivable Agreement Members on November 4, 2022 as the first installment; and (ii) 7,102,081 Canopy Shares (equivalent to 710,208 on a post-Canopy Consolidation basis)with a value of $15.2 million to certain Tax Receivable Agreement Members on March 17, 2023, as the second installment, as consideration for the assignment of such Tax Receivable Agreement Members' rights under the Tax Receivable Agreement to Canopy USA. Canopy, on behalf of Canopy USA, also agreed to issue Canopy common shares with a value of approximately US$19.6 million to certain eligible participants pursuant to the Bonus Plans to be issued immediately prior to completion of the Floating Share Arrangement.

Surety bonds

The Company has indemnification obligations with respect to surety bonds primarily used as security against non-performance in the amount of $5,000 as of March 31, 2024, for which no liabilities are recorded on the Unaudited Condensed Consolidated Statements of Financial Position.

The Company is subject to other capital commitments and similar obligations. As of March 31, 2024, such amounts were not material.

Contingencies

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company's applicable subsidiaries ceasing operations. While management of the Company believes that the Company's subsidiaries are in compliance with applicable local and state regulations as of March 31, 2024, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company's subsidiaries may be subject to regulatory fines, penalties, or restrictions in the future.

The Company and its subsidiaries may be, from time to time, subject to various administrative, regulatory and other legal proceedings arising in the ordinary course of business. Contingent liabilities associated with legal proceedings are recorded when a liability is probable, and the contingent liability can be reasonably estimated. Refer to Note 13 of the Unaudited Condensed Consolidated Financial Statements for further discussion.

Critical accounting policies and estimates

We have adopted various accounting policies to prepare the Unaudited Condensed Consolidated Financial Statements in accordance with GAAP. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. In our 2023 Annual Report on Form 10-K, we identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements.

As of March 31, 2024, the Company implemented a change in accounting estimate for the costing of inventory cultivated, extracted or processed, and manufactured or infused by the Company from historical average cost to three-month rolling average cost to better align with evolving market dynamics, improve the accuracy of inventory valuation, and enhance financial reporting transparency. The Company accounted for this change as a change in accounting estimate and, accordingly, applied it on a prospective basis. This change resulted in a $13,828 charge to *Cost of goods sold, wholesale* on the Company's Unaudited Condensed Consolidated Statements of Operations for the three months ended March 31, 2024.

Item 3. Quantitative and Qualitative Disclosures About Market Risk (presented in thousands, except share amounts).

The Company has exposure to certain risks, including market, credit, liquidity, asset forfeiture, banking and interest rate risk, and assesses the impact and likelihood of those risks. However, there have been no material changes in our market risk during the three months ended March 31, 2024. For additional information, refer to our 2023 Annual Report on Form 10-K for the year ended December 31, 2023.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of the Company's management, and due to the material weakness in internal controls over financial reporting described below, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were not effective for the period ending March 31, 2024 to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Inherent Limitations Over Internal Controls

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("GAAP"). The Company's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management, including the Company's Principal Executive Officer and Principal Financial Officer, does not expect that the Company's internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Material Weaknesses in Internal Control Over Financial Reporting